# The Gulf Monarchies: Uncomfortable Pivots

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The six Arab monarchical states of the Persian Gulf (Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman), which make up the Gulf Cooperation Council (GCC), are pivotal for American strategy in the Gulf and the wider Middle East, for the world oil market and, increasingly, for the global financial system. While they are basically stable states with long histories of cooperation with the United States, we remain uncomfortable with their pivotal status. Many Americans see them as anachronisms, liable to be toppled by the next regional ideological wave. We do not like their lack of democracy and their stance on women's issues and workers' rights. We remember that 15 of the 19 hijackers on September 11, 2001 were from Saudi Arabia and two were from the UAE. For their part, the Gulf monarchies are uncomfortable not only with their exposed regional security position but also with many aspects of our policy in the region. They do not like our war in Iraq (with the possible exception of Kuwait). They fear that they will be drawn into an Iranian-American military confrontation, but equally worry that our reaction to the Iraq mess will be to leave the region entirely. They worry that our Arab-Israeli policy will alienate their own citizens and make the maintenance of their relations with us more difficult.

These mutual worries and complaints are not enough to rend the long-standing security and economic relations between the U.S. and these states. They realize that they need us for their security, and they have no one else to whom to turn to provide that security. Successive American administrations have seen these states as central to the American regional position. Even our post-9/11 tensions with Saudi Arabia did not lead to a fundamental change in the relationship. For better or for worse (to coin a phrase), the United States is married to the GCC states, and it is a Catholic marriage—no divorce, and annulments are hard to get. Like any marriage, this one has its issues and will be much happier as long as both sides work on them.

## The Gulf Monarchies and the Third Oil Boom

We are living through the Third Oil Boom (the first being 1970-74 and the second being 1979-81), with oil prices having increased from just over $30 per barrel at the beginning of 2004 to over $100 per barrel in April 2008. As a percentage increase, the current oil boom almost matches the 400% increase in oil prices in the First Boom. The Gulf monarchies are benefiting enormously from it. For example, Saudi Arabia's government revenue (the vast majority of which is from oil) went from $150 billion in 2005 to $245 billion in 2008, a jump of almost two-thirds. All of the GCC states are benefiting from the Boom, particularly the major oil producers (Saudi Arabia, Kuwait and the UAE) and the big gas producer, Qatar. The Third Boom has made these states even more pivotal on the regional and global stages:

- **Global Oil Market:** The big three GCC oil producers account for approximately 45% of global oil reserves and about 16% of global oil production (2007 average production). Perhaps even more importantly, Saudi Arabia, Kuwait and the UAE are among the only oil producers who have any spare capacity—who can bring more oil onto the market quickly. Other oil producers basically produce as much as they physically can on any given day. The Saudis have about 1.5 million barrels per day (mbd) of spare capacity; the Kuwaitis and the Emirates a few hundred thousand barrels per day between them. In this rising market, if a political crisis or weather event reduces production elsewhere, putting even more upward pressure on prices, only the Gulf states can immediately increase production to level off market pressures, if they want to.
- **Global Capital Market:** Gulf sovereign wealth funds (SWFs), estimated today to manage $1.5 trillion in assets, are forecast by the IMF to double in size by 2010. The Gulf SWFs are not the only players in this market, as they are not the only players in the world energy market, but they have enormous disposable capital in comparison to their small populations. This is not a new phenomenon for them; they were similarly situated in the 1970s. Then, the Gulf states had few investment options; their capital was recycled to London and New York. Now, with the global capital crunch and the vastly increased investment options, the Gulf fund managers have more choices and are more savvy players on the world scene. In the 1970's, most Gulf funds and central banks played a very conservative investment game, keeping their money in short-term paper and government bonds (Kuwait was an exception). Now, through their new SWFs, they are set to pursue more aggressive investment strategies.
- **American Military Strategy:** The GCC states host the American military infrastructure in the Persian Gulf. Without access to their territory and facilities, we could not have fought the Iraq War, we cannot maintain our forces in Iraq and, when the time comes, we will not be able to withdraw from Iraq. We have bases in Kuwait (Camp Doha—ground forces), Bahrain (the headquarters of the Fifth Fleet) and Qatar (al-Udayd air base); we have access to airfields in the UAE and Oman; the port of Dubai sees more U.S. Navy ships than any port outside of the United States. Our forces have left Saudi Arabia since the fall of Saddam Hussein, but access to Saudi airspace and facilities was instrumental in the Iraq War. When we do decide to leave Iraq, the only way out for us is through Kuwait.
- **Middle East Regional Politics:** Saudi Arabia, strengthened by its new oil wealth, is playing a major role in regional politics, leading efforts to challenge the rise of Iranian influence in the Arab world. The Saudis are particularly active in Lebanon and among Palestinians, and increasingly in Iraq. With Iraq a playing field rather than a player, Egypt focused on internal issues and without the resources it had in the past and Syria in Iran's camp, the Saudis are the only major Arab state with the resources and the regional clout to challenge the Iranians. We and the Saudis do not always agree on how that should be done, but we share that same basic goal.

### Stable Pivots, but Uncomfortable

Given these points, the stability of the Gulf monarchies is an important American interest. So, how stable are they? Every generation of American Middle East specialists, in government and out, has confidently predicted the demise of the Saudi monarchy (and, by extension, those of the smaller states). In the 1950s and 1960s, it was assumed that the Saudis would be swept away by a military coup led by Arab nationalist and socialist officers, as the monarchies of Egypt and Iraq had been. In the 1980s, it was the Iranian revolutionary model which would cross the Persian Gulf and bring the Saudis down. Saddam Hussein in 1990 tried to fuse both tropes—Arab nationalism and Islam—to pressure the Saudis after he had conquered Kuwait. Some recent American advocates of Middle East democracy thought that a splendid success in Iraq would not only shake the anti-American authoritarians in Iran and Syria, but also the pro-American authoritarians in Riyadh (and Cairo), and that would be a good thing. None of these forecasts have come to pass. The Gulf monarchies have weathered every storm so far. They are weak international players, in that they do not have the military power to stand up to their neighbors, but they are not weak states internally. They have their problems, but also strong elements of regime stability.

The Third Oil Boom has solidified that stability. These states are all, to one extent or another, patronage states. They use their oil (and gas) revenues to provide for their citizens. They placate, co-opt and coddle their citizens (and beat up those, relatively few these days, who choose not to be placated, co-opted and coddled). The windfall from the Third Oil Boom gives the regimes more carrots to give to their people and provides them the wherewithal to get more sticks to beat them up, if necessary.

Moreover, many (though not all, and not to the same extent) of the regimes have adopted developmental strategies before the Third Boom that are promoting better use of their windfall than was the case in the 1970s. In the earlier booms, enormous investments were made in infrastructure, but there was a sense that the money would continue to roll in, and thus one did not have to plan productively. The oil busts of the 1980s (in 1986 prices briefly dropped below $10 per barrel) and the 1990s (in 1998 prices again briefly fell below $10 per barrel) taught the rulers that they had to plan for the lean times while things were fat.

Dubai in the UAE has gone the furthest on this, becoming a world center for trade and tourism, in effect weaning itself from the oil spigot. Qatar and Abu Dhabi (UAE) have made major investments in encouraging private Western educational institutions to locate branches in their capitals. Saudi Arabia is playing catch-up educationally with plans for a new science and technology university. Bahrain has an historic strength in the banking industry, though it no longer has a regional monopoly on that sector. All the Gulf states have developed much more sophisticated private sectors—still connected to the regimes, as oil and gas are still the economic drivers in all these countries, but comfortably linked to the global economy. New economic sectors, like telecommunications, are being left to the private sector, not (as was the case in the 1970s) being absorbed by the state. Non-oil GDP growth in these states has recently exceeded oil GDP growth even during the Third Boom. While these are still oil states, they have developed somewhat more diversified economies.

So things are not bad in the Gulf monarchies. There are domestic and regional problems, to be sure. The economic models of all the states are still built on large amounts of foreign labor (the foreign population exceeds the citizens in Kuwait, Qatar and the UAE, in the latter two countries by a margin of 4 to 1). Foreign labor is cheaper than domestic labor and easier for bosses to control. So, despite the economic boom, all of these states have problems finding jobs for their young adults, who constitute a disproportionately large portion of their populations because of population growth during the earlier booms. The Third Boom, along with global economic trends, has brought inflation into these economies as a serious issue for the first time since the 1970s. If you ask an average Gulf citizen what his or her biggest problem is today, he or she is unlikely to talk about democracy or human rights or the threat of the spill-over of Iraqi violence. He or she will most likely talk about the cost of living.

The increasing education and sophistication of the local populations, along with the pressure felt by Gulf rulers from global democratic trends, has led to some limited political reforms throughout the Gulf states. None are truly democratic. Kuwait and Bahrain have real elections to legislatures with some power. Oman and the UAE have managed elections to legislatures with little to no power. Saudi Arabia has an appointed consultative council. Qatar has plans for an elected legislature. But in none of these countries is there a trajectory for real democratic politics. The rulers keep the real decisions in their own hands.

So far, these very limited political reforms have kept opposition, for the most part, aboveground and relatively tame. Saudi Arabia has faced a serious but manageable challenge from al-Qaeda sympathizers. They conducted a number of attacks within the kingdom from 2003 through 2007. In recent years, the security forces have taken the offensive and it seems that they have the problem in hand, though not completely quelled. The sectarian fighting in Iraq and fears of growing Iranian power have exacerbated sectarian tensions, particularly in Bahrain, where Shi'a form a majority of the population and have historically not shared proportionately in the country's power and wealth. The sectarian issue is a perennial in Bahrain; it is more salient in Kuwait (where Shi'a make up about 30% of the citizen population) now with the regional tensions.

## The U.S. and the Gulf States: The Issues on the Table

It might not be a particularly close marriage, but it still serves the interests of both sides. Still, there are a number of issues in the relations of the U.S. with the Gulf states that bear consideration:

- **Oil:** It is a legitimate question to ask the Saudis (and Kuwaitis and Emiratis) why they are not producing at capacity to help bring down the current, historically high oil prices. A good argument can be made that it is in their long-term interest not to push consumers to alternative sources of energy.
- **Sovereign Wealth Funds:** There is no evidence that Gulf fund managers have been particularly political or nefarious in the past. It is our political system that has seen Gulf investment, on occasion, as sensitive (Dubai Ports World). But we can require the SWFs (not only from the Gulf) to adopt basic rules of transparency as the price for admission to our markets.
- **Terrorist Groups and *Salafi* Islam:** The Gulf states, particularly Saudi Arabia, remain important sources of funding for al-Qaeda and sympathetic groups. None of the states is encouraging this, but pressure needs to be kept on, particularly Saudi Arabia and the UAE, to be vigilant in dealing with terrorist financing issues. Saudi Arabia for decades has been a supporter of the spread of its interpretation of Islam (Wahhabism or, as the Saudis prefer, *Salafi* Islam). The Saudi regime since 2003 has realized that al-Qaeda and its sympathizers have been nurtured in Saudi-funded international Muslim organizations. The Saudis have taken steps at the ideological level to discredit al-Qaeda, but they must be encouraged to continue these efforts and monitor very closely the international Islamic organizations (inter-governmental and non-governmental) which they sponsor.
- **Iraq:** Saudi Arabia and some of the smaller states will take a more active role in Iraqi politics as we disengage. The Saudis are already more active in Iraq, supporting the Awakening Movements. Such involvement currently serves immediate American interests. But that is no guarantee that we will be on the same Iraqi page in the future. Saudi reluctance to deal with the Maliki government is an immediate issue.
- **Iran:** The Gulf states fear both growing Iranian power, including the Iranian nuclear program, and the prospect of a direct Iranian-American military con-

frontation. The Saudis are taking the lead in a subtle strategy of both engaging Teheran directly and working to roll back Iranian influence in the Arab world (Lebanon, Palestinians, Iraq). We are cooperating with them, particularly in Lebanon. But the tactical differences between Riyadh and Washington on how to deal with the Iranians could create frictions. In the past, Saudi Arabia has mobilized *Salafi* Islam to counter revolutionary Iranian Shi'ism. But that strategy helped to create the atmosphere from which al-Qaeda emerged.

- **Arab-Israeli Peace Process:** The Gulf states basically share the American goal of a stable peace between Israel and its Arab neighbors, including the Palestinians. However, there are important tactical differences, most notably in terms of dealing with Hamas. Saudi Arabia has encouraged Hamas-Fatah reconciliation, to limit Iranian influence with Hamas. Other Gulf states also do not seem to have the problems with Hamas which we do.

- **Arms Sale:** Part of our effort to bolster the Gulf states in the face of growing Iranian power is the proposed $20 billion arms deal with them. The debate over the arms sale could be a good vehicle for raising many of these issues with the Gulf leaders.